

ORIGINAL
OPEN MEETING



0000069924

MEMORANDUM

Arizona Corporation Commission

DOCKETED

MAR 30 2007

TO: THE COMMISSION

FROM: Utilities Division

2007 MAR 30 P 3: 32
AZ CORP COMMISSION
DOCUMENT CONTROL

DOCKETED BY

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DATE: March 30, 2007

RE: ARIZONA PUBLIC SERVICE - APPLICATION FOR APPROVAL OF AN
ELECTRIC SUPPLY AGREEMENT WITH LUKE AIR FORCE BASE
(DOCKET NO. E-01345A-06-0757)

On December 12, 2006, Arizona Public Service Company ("APS") filed an application for approval of an electric supply agreement with Luke Air Force Base ("Luke"). On December 12, 2006, APS filed a letter waiving the 30-day time clock. On March 27, 2007, APS filed an amended version of the agreement with references to a proposed rate schedule in APS' ongoing rate case removed.

Luke has installed two photovoltaic ("PV") systems (for a total of 325 kW) under APS' Environmental Portfolio Standard Credit Purchase Program to generate a part of its electric load. APS has provided a rebate of \$489,600 for a 100 kW system and will provide a rebate of \$1,011,600 for a 225 kW system to help reduce the cost of the PV systems to \$1,855,131.

Luke currently purchases all of its electric power from APS under APS' rate schedule E-34 (Extra Large General Service). If Luke operates the PV systems, Luke would be purchasing partial requirements service from APS instead of full requirements service. Under APS' current rate schedules, Luke would have to take partial requirements service under E-55 (Partial Requirements Service 3,000 kW or Greater). E-55 was originally designed for customers operating large-scale cogeneration facilities with capacity factors higher than those of PV units. Because of the higher basic service and standby charges on E-55, Luke would pay more for partial electricity requirements under E-55 than it currently pays for full requirements service under E-34, making operation of the PV systems uneconomical for Luke. Therefore, APS has offered Luke an electric supply agreement with terms that would allow operation of the PV systems to be economical for Luke.

The agreement would become effective upon Commission approval and remain in effect for five years. The agreement could be terminated by either party with 30-days notice or by APS if Luke does not operate the PV units for 60 consecutive days other than during planned scheduled maintenance periods. The minimum electric demand contracted for under the agreement would be 9,262 kW. The maximum demand would be 13,893 kW. Luke would have to give 30 days advance notice of any demand above the maximum. Luke does not intend to sell any excess electric energy to APS.

THE COMMISSION

March 29, 2007

Page 2

Under the proposed agreement, Luke would pay the Basic Service and Revenue Cycle Service charges (currently \$2.926 per day) from E-34. Supplemental service, defined as demand and energy contracted by Luke to augment the power and energy generated by Luke's PV systems, would be provided under the rates contained on E-34. Those rates currently consist of \$8.943 per kW and \$0.03183 per kWh.

Luke would purchase standby service to have replacement power available when the PV systems are not operating. The monthly delivery charge for standby service would be calculated by multiplying the unbundled delivery charge (currently \$3.943 per kW) from E-34 by the 15-minute integrated kW measured on the generator meter during Luke's monthly peak demand.

In addition, Luke would pay applicable adjustments, such as the Environmental Portfolio Surcharge (currently \$39.00 per month), the Competition Rules Compliance Charge (currently \$0.000338 per kWh), the PSA Adjustor Rate (currently \$0.003987 per kWh), the PSA Surcharge (currently \$0.000554 per kWh), and the PSA Interim Adjustor Rate (currently \$0.007 per kWh).

Using 2006 consumption history and estimating a 20 percent capacity factor for the PV generation, Luke would have paid about \$3,575,000 for the year (\$0.0549/kWh) under the proposed agreement while operating the PV systems, compared to \$3,602,000 (\$0.0548/kWh) under E-34 without operating the PV systems and \$3,624,000 (\$0.0556/kWh) under E-55 with the PV systems.

Staff recommends approval of the proposed agreement, as amended, with Luke.

Staff also analyzed this application in terms of whether there were fair value implications. Compared to APS' total revenues, any impact from this agreement would be de minimus, and any impact on APS' fair value rate base and rate of return would also be de minimus.

Staff also recommends that the Commission specify in its Order that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with Luke.



for Ernest G. Johnson
Director
Utilities Division

EGJ:BEK:tdp\KOT

ORIGINATOR: Barbara Keene

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 MIKE GLEASON
 Chairman
3 WILLIAM A. MUNDELL
 Commissioner
4 JEFF HATCH-MILLER
 Commissioner
5 KRISTIN K. MAYES
 Commissioner
6 GARY PIERCE
 Commissioner

8 IN THE MATTER OF ARIZONA PUBLIC
9 SERVICE - APPLICATION FOR
10 APPROVAL OF AN ELECTRIC SUPPLY
11 AGREEMENT WITH LUKE AIR FORCE
12 BASE.
13 _____

DOCKET NO.E-01345A-06-0757
DECISION NO. _____
ORDER

14 Open Meeting
15 April 11 and 12, 2007
16 Phoenix, Arizona

16 BY THE COMMISSION:

17 FINDINGS OF FACT

- 18 1. Arizona Public Service Company ("APS") is certificated to provide electric service
19 as a public service corporation in the State of Arizona.
- 20 2. On December 12, 2006, APS filed an application for approval of an electric supply
21 agreement with Luke Air Force Base ("Luke"). On December 12, 2006, APS filed a letter waiving
22 the 30-day time clock. On March 27, 2007, APS filed an amended version of the agreement with
23 references to a proposed rate schedule in APS' ongoing rate case removed.
- 24 3. Luke has installed two photovoltaic ("PV") systems (for a total of 325 kW) under
25 APS' Environmental Portfolio Standard Credit Purchase Program to generate a part of its electric
26 load. APS has provided a rebate of \$489,600 for a 100 kW system and will provide a rebate of
27 \$1,011,600 for a 225 kW system to help reduce the cost of the PV systems to \$1,855,131.
28 ...

1 4. Luke currently purchases all of its electric power from APS under APS' rate
2 schedule E-34 (Extra Large General Service). If Luke operates the PV systems, Luke would be
3 purchasing partial requirements service from APS instead of full requirements service. Under
4 APS' current rate schedules, Luke would have to take partial requirements service under E-55
5 (Partial Requirements Service 3,000 kW or Greater). E-55 was originally designed for customers
6 operating large-scale cogeneration facilities with capacity factors higher than those of PV units.
7 Because of the higher basic service and standby charges on E-55, Luke would pay more for partial
8 electricity requirements under E-55 than it currently pays for full requirements service under E-34,
9 making operation of the PV systems uneconomical for Luke. Therefore, APS has offered Luke an
10 electric supply agreement with terms that would allow operation of the PV systems to be
11 economical for Luke.

12 5. The agreement would become effective upon Commission approval and remain in
13 effect for five years. The agreement could be terminated by either party with 30-days notice or by
14 APS if Luke does not operate the PV units for 60 consecutive days other than during planned
15 scheduled maintenance periods. The minimum electric demand contracted for under the
16 agreement would be 9,262 kW. The maximum demand would be 13,893 kW. Luke would have to
17 give 30 days advance notice of any demand above the maximum. Luke does not intend to sell any
18 excess electric energy to APS.

19 6. Under the proposed agreement, Luke would pay the Basic Service and Revenue
20 Cycle Service charges (currently \$2.926 per day) from E-34. Supplemental service, defined as
21 demand and energy contracted by Luke to augment the power and energy generated by Luke's PV
22 systems, would be provided under the rates contained on E-34. Those rates currently consist of
23 \$8.943 per kW and \$0.03183 per kWh.

24 7. Luke would purchase standby service to have replacement power available when
25 the PV systems are not operating. The monthly delivery charge for standby service would be
26 calculated by multiplying the unbundled delivery charge (currently \$3.943 per kW) from E-34 by
27 the 15-minute integrated kW measured on the generator meter during Luke's monthly peak
28 demand.

9. Using 2006 consumption history and estimating a 20 percent capacity factor for the PV generation, Luke would have paid about \$3,575,000 for the year (\$0.0549/kWh) under the proposed agreement while operating the PV systems, compared to \$3,602,000 (\$0.0548/kWh) under E-34 without operating the PV systems and \$3,624,000 (\$0.0556/kWh) under E-55 with the PV systems.

11. Staff has also analyzed this application in terms of whether there were fair value implications. Compared to APS' total revenues, any impact from this agreement would be de minimus, and any impact on APS' fair value rate base and rate of return would also be de minimus.

12. Staff has also recommended that the Commission specify in its Order that approval of the agreement, as amended, at this time does not guarantee any future ratemaking treatment of the agreement with Luke.

1. APS is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over APS and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated March 30, 2007, concludes that it is in the public interest to approve the agreement, as amended.

• • •

ORDER

IT IS THEREFORE ORDERED that the agreement, as amended, with Luke be and hereby is approved.

IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with Luke.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2007.

BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:BEK:tdp/KOT

Decision No. _____

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-06-0757

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